

Joint Fiscal Office

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MEMORANDUM

To: Representative Martha Heath, Chair
Senator Jane Kitchel, Vice Chair
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: September 4, 2013

Subject: September 2013 – Fiscal Officers’ Report

What follows is an update of developments, some of which will be on the agenda for the September Fiscal Committee meeting:

- 1. FY 2014 Revenues Update:** Revenues – The first two months of the fiscal year are very consistent with forecasts in all funds:
 - a. Through the first two months of the fiscal year, the General Fund overall is basically on target! We are off \$400,000 or 2/10 of 1% below target.
 - i. The income tax is up just under 1%;
 - ii. Sales tax is right on target due to a slight improvement in August;
 - iii. Corporate tax is the outlier, being down \$2.4 million from estimates for the first two months of the fiscal year;
 - iv. Meals and Rooms is up \$1.1 million or 4% through August;
 - v. Property transfer and other revenue are on target;
 - vi. September is a bigger month so we should have a better sense of revenue as the quarter closes.
 - b. The Transportation Fund ended the two-month period basically on target. As with the General Fund, it is below target \$100,000 or 2/10 of 1%.
 - i. Gasoline Tax is down 4.5% and Purchase and Use is up 3% through the first two months;
 - ii. Fees are on target.
 - c. The Education Fund also is basically on target (3/10 of 1% below) with improvements in Sales Tax and Purchase and Use in August, offsetting July performance.
 - d. Again, we should have a better sense at the end of September, but to date revenues are tracking forecasts very well.
- 2. FY 2014 and Beyond Revenue and Budget Pressures:**
 - a. Vermont Yankee’s pending closing will be a factor for FY 2015 and beyond. Our current estimate, assuming a December 2014 closing, is that in FY 2015 we will lose just over one-quarter’s revenue, or just over \$3 million. In

FY 2016, the full \$11.7 million loss will occur. The entire loss is in the General Fund as the payments to the Education Fund were exchanged for a higher sales tax percentage last year (33.3% became 35%). Sara Teachout is preparing a more complete brief on the Vermont Yankee tax issues which should be available before or at the meeting.

- b. We have begun working with the Administration on assessing a projected current services need for FY 2015. We expect to have budget gap information for the November JFC meeting. The roughly \$55 million in one-time funds that were used to build the FY 2014 budget still remains a good proxy for the shortfall that we will have to address with revenue growth absorbing other pressures.
- c. FY 2014 Budget Adjustment pressures are as yet to be identified. The initial pressures list includes:
 - i. The State Police/trooper contract has an \$810,000 cost in FY 2014 which was not budgeted;
 - ii. The Veterans' Home remains an uncertainty;
 - iii. Projected LIHEAP need for the upcoming heating season is likely to exceed the \$6 million of State funds set aside for the program. Program Director Richard Moffi will present an update at the September meeting;
 - iv. The Developmental Services area may see some budget pressures beyond the \$2.5 million savings target that was built into the budget. The Developmental Services budget is \$170 million. There are many moving pieces and a more detailed analysis is under way;
 - v. Federal funding at the Brattleboro Retreat is another area where uncertainty exists;
 - vi. The impact to the State from the federal Sequester is still being assessed. There may be some budget pressures which will be clearer in the Fall;
 - vii. We are seeing some upward pressure in Corrections.

3. FEMA-related issues:

Irene and State buildings:

With the announcement last week of FEMA and insurance funding, the Administration estimates that the FY 2016 remaining capital costs will be \$9.774 million. We are enclosing an overall Waterbury State Office Complex Funding Summary with this mailing. Commissioner Obuchowski will provide a brief update at the JFC meeting.

4. Saint Albans Development Project

There has been considerable discussion about a St. Albans building project that was approved during the last session. A private pharmaceutical company, MYLAN, has asked to buy the St. Albans State office building at a premium price to facilitate an expansion of its operations. It proposes to add 100 jobs to the city. The resulting need for new State office space is part of a downtown development project proposal in conjunction with a St. Albans effort to increase parking and pave the way for a new hotel. The project is designed to create an additional 90 jobs. The financing of the project is likely

to involve several State financing sources and may require an increase in fee for space costs and require emergency board and eventual legislative action.

5. The Choices for Care Carry-Forward issue

- a. The language in Sec. E. 308 of the budget restricts Choices for Care carry-forward funds to be used for balancing the overall budget with reinvestment of any funds to be made in the budget adjustment process for the purposes specified.
- b. Sec. E. 308.1 of the Budget Bill allows JFC to approve Commissioner of DAIL-requested reinvestments earlier than BAA in FY14 due to federal funding impacts or emergency system funding needs.
- c. It is anticipated there will be a request related to senior nutrition and case management that has been reduced by the Sequester. There is also a request from Sen. Lyons and Rep. Krowinski to reinvest funds for moderate needs group services at this time. It is not clear that the moderate needs group request meets the emergency criteria of Sec. E. 308.1 and will likely be held for BAA consideration. A copy of the letter from Sen. Lyons and Rep. Krowinski and a response from Sen. Kitchel and Rep. Heath is included in the materials along with the underlying statutory language.

6. Medicaid Spending Growth Analysis

- a. As part of our work in analyzing the health care reform finances, Stephanie Barrett has looked at the Medicaid fiscal pressures under current law and developed a draft worksheet that underscores Medicaid pressures (included with this report). With existing spending, known federal match changes, and other adjustments such as the loss of tobacco settlement strategic payments from FY 2014 as passed to FY 2018 projected, we will need an additional \$162 million in State funds.
- b. An estimated net of \$10.3 million of this is offset by growth in State revenues for Medicaid such as claims assessment, employer assessment, and the tobacco and provider taxes. An additional \$47.3 million is offset by applying 22% of the projected growth of the General Fund in the same period (roughly the share of Medicaid of total General Fund spending in FY 2014).
- c. After the normal revenue growth, through FY 2018, projected Medicaid-related needs for State funds will exceed normal revenue growth by a \$104.4 million during the four-year period, before addressing the cost of health care reform. This assumes no issues with current waiver renewals, no additional FMAP changes, and no cost growth due to policy changes.

7. JFO Tax Analysis and the Tax MOU:

In accordance with the August 5th MOU, the Tax Department is working with the Joint Fiscal Office (JFO) to expand the capacity of JFO with spreadsheet-based tax analysis tools while awaiting a resolution regarding the way to provide JFO with independent analytical capacity. The JFO and the Tax Department have been discussing a possible modeling capacity with Chainbridge Associates, a company which provides tax modeling assistance

to the Connecticut Legislative Fiscal Office, and the Maine, Rhode Island, and Alabama tax departments. We hope to identify a viable approach by early October which will have three components:

- i. Increased JFO capacity for spreadsheet-based modeling over what existed in prior years;
- ii. A plan to use Deb Brighton as a Tax Department employee/JFO consultant to provide an additional resource capacity in the Tax Department for JFO data needs. JFO would absorb some of this cost; and
- iii. A possible agreement on the long-term use of the Chainbridge model which would provide JFO with further independent capability within IRS Vermont Law and Tax Department confidentiality requirements.

8. Transportation Fund Rescissions

The Administration's proposed rescissions to the FY14 transportation budget amount to a total of \$4.1 million in TFunds. While it is still possible that changes will be made, the plan to be presented at the meeting has the following elements:

Amount	
710,954	Expected project delays to be identified
200,000	Reduce spending on AOT buildings (garage improvements)
1,575,000	One-time \$ (property sale, Amtrak contract lower than budgeted)
700,000	Program funds not expected to be needed in FY14 (TH Emergency fund, Rail 3-Way partnerships)
691,912	Substitute federal for State funds (new fed \$ and toll credits)
200,000	Reversions
28,485	Adjust Stabilization Reserve to reflect actual FY13 spending
4,106,351	Total

9. Summer Study Committee updates:

- a. Sara Teachout and Peter Griffin will be presenting work on establishing purposes for tax expenditures. A briefing memorandum is included with the materials for the meeting.
- b. The Workforce Development Work Group continues to meet. Nathan Lavery is the key staffer on this. Steve Gold has withdrawn from much of the work due to other responsibilities.
- c. Vermont Center for Justice Research (VCJR) [Sec. 3 of Act 61 of 2013]:
 - i. Act 61 called for the VCJR, working with the Joint Fiscal Office, to develop estimates of costs associated with the arrest, prosecution, defense, adjudication, and correction of criminal and juvenile defendants in Vermont. Nathan Lavery is coordinating this work with Max Schlueter of VCJR.
 - ii. One recent development is the VCJR is running into fiscal issues with paying for Max Schlueter's time generally. He is trying to assess their

continued plate of projects based on reduced time for VCJR activities.

This may come up in future budget development.

- d. Section E.220 of the Budget (Act 50) established a study committee on the future funding for the Center for Crime Victims Services (CCVS). The first committee meeting is scheduled for early October.
- e. The Administration is working on its report on accounting standards for engineering costs required by the capital budget. The issue is cost allocation of engineering between the General Fund and the capital project funds. It will present a report to the Joint Fiscal Committee at its September meeting.

10. Other Joint Fiscal Office Updates:

- a. The Joint Fiscal Office has hired Dan Dickerson as a new Tax Analyst. Dan has recently received his Master's in Urban Planning with the University of Illinois in Chicago. His undergraduate degree is in accounting. He has also been a member of the Vermont National Air Guard since 2009. He worked as a seasonal tax intern with Cooper and Flynn in Burlington in 2009.
- b. Maria Belliveau participated in a set of interviews with potential consultants to the Administration to find potential for savings. The Administration is in the process of negotiating a contract with a potential vendor.
- c. Nolan Langweil, Stephanie Barrett, and I met with the University of Massachusetts consultants to begin to understand the financial numbers of health care reform. We will be continuing to work toward a more thorough understanding of the related costs. As part of this work, Catherine Benham and Michael Costa are beginning a series of conversations to identify the analytical tools necessary for administration and legislative tax proposal development. Other Fiscal Staff and Legislative Council staff will be involved in this effort.